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The Gazette
BUSINESS

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THURSDAY, NOVEMBER 9, 2000

HOW THEY CLOSED

TSE	9552.50	-24.32
CDNX	3261.52	-13.66
DOW	10,907.06	-45.12
NASDAQ	3231.70	-184.09
GOLD (N.Y.)	$265.00	+$0.70
DOLLAR	64.85	-0.34
PRIME RATE	7.50	UNCH

See World Markets on Page E4

Sinking dollar

Loony falls again, to its lowest level in 22 months

GREG QUINN
Bloomberg News

TORONTO – The Canadian dollar fell to its lowest level in 22 months, as investors reasoned that its slide over the past two months has left them with little reason to buy it. Bonds pared losses after stronger-than-expected demand for a sale of five-year bonds.

The dollar closed at 64.85 cents U.S., down 0.34 cents. The last time the loony was this low was Dec. 30, 1998, when it closed at 64.58 U.S. cents. The dollar traded at 68.07 U.S. cents at the beginning of September.

"People are very concerned with what's happened to the Canadian dollar, and they're stepping away from it," said Steve Butler, a currency trader at Scotia Capital in Toronto.

The dollar's decline began in overnight trading, as investors bet that Republican George W. Bush won Tuesday's presidential election.

"The foreign-exchange market seems to have taken a view that Bush would provide substantial tax cuts and tend to boost growth in the U.S., and that favours the U.S. dollar," said Ted Carmichael, a senior economist at J.P. Morgan Canada Inc. in Toronto.

A trader with a major Canadian bank in Toronto said that market participants seem psychologically braced for a rising U.S. dollar.

"Would the market have bought the Canadian dollar in the event of a Gore victory? Probably not. Would the market have bought U.S. dollars in the event of a Bush victory? Probably," said the trader.

Please see **DOLLAR,** *Page E2*

CHRISTINNE MUSCHI, GAZETTE

Jitec investor Michel Faille (centre) is surrounded by lawyers Enrico Martin (left) and Michel Labelle, who answered questions from disgruntled shareholders.

Jitec investors talk suit

Stock was shorted illegally, lawyers tell 50 disgruntled shareholders

DON MACDONALD
The Gazette

Upset shareholders in **Jitec Inc.** met yesterday to discuss the possibility of launching a lawsuit against those involved in an alleged scheme to illegally sell the stock short.

About 50 people showed up at a meeting room in the Sheraton Centre to hear two lawyers discuss a possible lawsuit.

Those who had sustained losses in the precipitous fall of Jitec in recent weeks were invited to pony up $500 to $1,000 each for legal fees.

"From the facts that we have, we have serious reason to believe that the stock was shorted illegally and in bad faith," lawyer Enrico Martin told the meeting.

Jitec is a Nuns' Island computer-networking company that has been embroiled in controversy for the last month. The Quebec Securities Commission is currently investigating unusual trading patterns in the company's stock.

The share price has fallen from a high of $11.65 on Aug. 10 to yesterday's close of $2.12.

Lawyer Michel Labelle said the target of a lawsuit and a possible injunction would be individuals and brokerage firms who are allegedly involved in illegal short selling.

The meeting was organized by Michel Faille, who described himself as a consultant to Labelle's law firm and representative of several Jitec shareholders.

A short sale occurs when an investor borrows stock and then sells it in hopes of profiting by purchasing it at a lower price and replacing it.

Selling short is legal as long as stock-exchange regulations are followed. Among the rules violated in the case of Jitec is a prohibition on selling short on a downtick, Faille claimed.

He said events of recent weeks is hurting Jitec's business and one of the goals of the legal action would be to halt the short selling to give the company "some breathing room."

The lawyers described an action in which one investor's case would serve as a test case for others who have suffered losses.

OPEN TO ALL SHAREHOLDERS

Labelle and Faille indicated the suit would be open to all shareholders, including company insiders.

A number of investors at the meeting voiced support for launching a lawsuit.

"If we go home (and do nothing) we live with our losses. But that's not what we want," one man said. "We have to stop these people."

But others asked what hard evidence the lawyers and Faille have of wrongdoing and expressed skepticism about the chances of success of a suit.

"How can you differentiate between a drop (in the share price) that's due to short selling and a drop that's due to unfavourable announcements from the company?" one man asked.

Faille said the meeting was held to discuss legal action and to seek out any facts regarding the case.

While he made allegations against individuals and companies, he said it wasn't the appropriate place to produce documents to back up his allegations.

Jitec leases to small and medium-size companies its stripped-down computer terminals that are connected to powerful servers at centralized operation centres. This allows firms to access software, high-speed Internet service and tech support for $49.95 a month.

Bush brings a little bad news, a little good

JAY BRYAN

Since the middle of the Canadian political road is somewhere to the left of Democrat Al Gore on most issues, a lot of middle-of-the-road Canadians are likely to be dismayed by the likelihood of a George W. Bush presidency.

If Bush indeed wins the cliff-hanger in Florida, he and the Republican majority in Congress are quite likely to give us – just to mention a few things with a direct impact on Canada – dirtier air, less action on global warming, a weaker Canadian dollar and higher interest rates than we otherwise might have had.

On the other hand, the shift of U.S. political power is less than it appears at first view, which means that no truly radical change is likely.

Since financial markets tend to prefer a passive government to an activist one, many investors will be happy to realize that the Republican Party will be hard-pressed to run through some highly publicized elements of its agenda. That's because it isn't enough to have a bare majority in both houses of Congress.

That's why U.S. commentators like Ian Shepherdson of High Frequency Economics predict that the tone of U.S. economic policy won't really change very much, despite Bush's election promise of a massive rollback in taxes.

And, ironically, that is good news for the well-heeled people who dominate the U.S. bond market and thereby influence the price of borrowed money all over North America.

Like most prosperous citizens, they're all for a tax cut for the rich. However, they are also acutely conscious that a really big tax cut à la Bush would make it very hard to pay down the U.S. national debt and could even set the stage for renewed deficits.

As Shepherdson cheerfully puts it in a report issued yesterday, "the most important point about the first Bush budget is that the tiny Republican majorities in both houses of Congress will make the new president's life very difficult.

"(Majorities of) 60 votes are required in order to force votes on controversial legislation, which means that Mr. Bush's oft-touted – by himself at least – ability to reach across the partisan divide will be tested to the full, and quickly."

The result: both the big tax cut and the plan to partly privatize public pensions will likely be scaled back and perhaps delayed by strengthened, if still minority, Democratic congressional delegations.

This means that the inflationary impact of the tax cut should be minimized, reducing the rise in interest rates that will inevitably follow any overly stimulative cut.

On the other hand, the Canadian dollar is likely to come under continued pressure, since lower taxes boost economic growth and higher interest rates are the likely prescription for keeping such growth from setting off an inflationary problem.

Trouble is, both rapid U.S. growth and higher U.S. interest rates will tend to attract additional foreign investment to that country, pushing up the value of the U.S. dollar against other currencies.

Guess what other currency has already been squeezed in value by this phenomenon and will now be squeezed a bit harder? A clue: you have some in your pocket. A stronger clue: the Canadian dollar fell more than one-third of a cent yesterday, to 64.85 cents U.S.

But it's not all discouraging news. Indeed, for stock-market investors, the news could be mostly good. Certainly, U.S. stocks in general should benefit from a federal government with little interest in regulating business and a strong commitment to smaller government and lower taxes.

Some Canadian stocks could benefit from a U.S. government with little interest in regulating business.

Some Canadian stocks could hitch a ride on U.S. developments. David Rosenberg, chief Canadian economist at Merrill Lynch, notes that if any part of social-security contributions in the U.S. really is diverted to private investment accounts, Canadian asset-management firms with a presence in the U.S. could benefit. The **Toronto-Dominion Bank's TD Waterhouse** subsidiary, for example, is one of North America's leading online brokers.

Other sectors that analysts see profiting from a Bush victory are pharmaceuticals, which could expect less pressure to restrain price increases; cigarette companies, which would benefit from a Bush promise to end a federal lawsuit over advertising that allegedly misled smokers about tobacco's health dangers; and the oil industry, which can expect very friendly treatment from a president and vice-president who were both executives of oil companies.

Indeed, Rosenberg says Bush and running mate Richard Cheney "would have to be considered the most oil-friendly ticket on record."

That's not such good news for those worried about pollution and global warming, but it's dandy for the Canadian stock market, where big oil companies loom nearly twice as large as they do in the U.S. universe of blue-chip companies.

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